

Testimony

By

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Commodities and Risk Management
Committee on Agriculture
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Mr. Chairman, Members of the Committee, it is an honor for me to appear before you to provide my perspective on the crop insurance program. I am Joe Brown. I have been a crop insurance agent here in Lubbock, Texas since 1980, when delivery of the program was privatized. I sell crop insurance to producers in New Mexico, Oklahoma and Texas for the crops of cotton, corn, grain sorghum, soybeans, peanuts and wheat. Like many farmers, my agency is family owned and operated; my son joined my business in 1996.

Over the last several years I have seen the difference crop insurance has made for producers. Mainly, they have been able to continue farming after their crops were destroyed by a natural disaster. The crop insurance program is a very successful government program delivered professionally by the private industry. It provides timely financial assistance to farmers who have experienced crop losses. I want to emphasize the program is working. However, I wish to bring to the Subcommittee's attention a few items regarding the crop insurance program that concerns the producers and their lenders, the crop insurance companies and many other agents, like myself:

- Lack of uniform guidance from RMA – frustrates all stakeholders;
- Threats to economic viability of industry – threatens service to Southwestern producers;
- RMA should use its current authority to counter fraud;
- Limitation on coverage of two crops puts producers at risk.

Lack of Uniform Guidance from RMA – Frustrates All Stakeholders

The most frustrating thing to my insured producers and me is the fact that RMA does not provide uniform guidance on policy interpretations or compliance requirements. RMA is quick to criticize that agents are not doing their job to properly deliver the program; I take exception to that position when RMA does not step up to provide clear directives. Many times agents and companies are caught in the middle of trying to understand how RMA will construe a term or policy provision, when RMA will not provide uniform guidance. It is not unusual for different companies to explain the same provision to agents differently, leaving us agents, confused and frustrated, as we try to explain the rules to our insured producers who become bitter with the many rule changes and confusing interpretations.

As an agent, I have seen my errors and omissions (E&O) coverage soar due to the complexity of the program and the lack of upfront guidance from RMA to assure that all parties are on track, companies and agents. Sadly, usually the only time agents get any directives from RMA is when Compliance comes down on them after the fact – possibly a few years later.

In order to maintain customer satisfaction it is imperative that companies and agents be able to obtain timely uniform guidance from RMA headquarters and the regional offices.

Threats to Economic Viability of Industry – Threatens Service to Southwestern Producers

Last November we lost the largest writer of crop insurance, American Growers Insurance Company, which wrote nearly \$600 million in crop insurance premiums. In addition, Rural Community Insurance Services has taken over the crop insurance business of Fireman's Fund. **So, in less than six months, the industry has lost two of the top four companies servicing the program.** Other companies are not lining up to jump into this business – they are certainly not moving into the Southwestern U.S. In many areas, agents and producers have few choices for crop insurance companies. I am concerned as the threats to the companies' economic viability continues, there will be even fewer choices. If there are fewer choices, service to farmers will suffer.

In my opinion, the greatest reason for the loss of companies in the crop insurance industry is the uncertainty of dealing with the government. These reasons include: **(1) annual threats** from the Executive Branch and Congress to **cut the administrative and operating (A&O) expense reimbursement to companies or to cap the potential underwriting gains,** **(2) the increasing complexity of the program** - there are additional last minute regulatory changes each year which are difficult to implement and **(3) uncertainty each year as to whether the government will attempt to change the terms of the Standard Reinsurance Agreement, in particular the profit/loss sharing parameters.** Annually, these factors bring financial uncertainty to companies and their reinsurers. These financial pressures are only passed on to the agents.

RMA has indicated it will renegotiate the SRA with the companies for the 2005 reinsurance year. Most of us in the industry are concerned that it taking so long for the proposal to come from RMA. We fear that delay will place more financial pressures and uncertainties on the companies – making them rethink where they want to do business.

As companies must purchase more than 50 percent of the reinsurance from the open market – it is imperative the terms of the proposed SRA contains terms that will provide financial stability to the industry. In addition, the SRA should include terms to encourage new companies to enter the program and provide terms, which makes it attractive for companies to operate in high-risk areas.

I also understand there have been some signs that RMA is interested in capping agents' commissions and implementing a national certification for the agents in the SRA. Since 1996, I have been working for less money each year, due to reductions in commissions, reduced premiums due to lower crop prices, and higher costs to service the products. Crop insurance agents must meet the certification requirements of the States in which they operate; in addition they are trained by the companies they sell crop insurance. Another certification requirement is not going to enhance the program, if RMA continues to fail to provide agents and companies with straightforward guidance to deliver the program. I recognize the SRA is the agreement between RMA and the

companies, but I am very concerned if RMA starts making changes which directly impact the agents, without input from all stakeholders impacted by the changes, not only we agents, but the producers and their lenders. RMA has not informed the agents if we will have a voice in this negotiation process.

RMA Has Sufficient Authority to Counter Fraud

The crop insurance industry is not immune to fraudulent schemes by persons wishing to abuse the system. Fraud costs everyone. Companies, agents and loss adjusters work hard to crack down on those who wish to take advantage of the system. The companies are actively training agents and loss adjusters on fraud detection. Furthermore, there is ample federal authority to combat any fraud and abuse problems under current law. The Agriculture Risk Protection Act of 2000 (ARPA) increased sanctions that can be imposed on producers, agents and loss adjusters for program abuses. Not only can producers be barred from the program, but also **RMA has the authority to disqualify agents and loss adjusters for up to five years from participating in the program.** Unfortunately, I think there are a few bad apples that are giving the entire pool of agents a bad reputation. **If RMA would utilize their enforcement tools and bar the abusive agents and loss adjusters, it would prevent them from transferring to unsuspecting companies every few years, thus perpetuating the problem.**

Limitation on Coverage of Two Crops Puts Producers at Risk

The last issue I want to address today was a change that was incorporated in the Agricultural Risk Protection Act of 2000 (ARPA), which RMA will be implementing for the 2004 crop year, the double insurance provision. Under this ARPA restriction, if the producer has a loss on the first crop, he can receive 100 percent of the insured loss for the crop and not insure the second crop. The other choice for the producer is to calculate the loss for the first crop, receive 35 percent of the eligible indemnity, plant and insure the second crop. If there is a loss to the second crop he can receive a full indemnity for the second crop, but he has to forgo any additional indemnity for the first crop. If the producer is fortunate and has no loss to the second crop, he can obtain the balance of the indemnity payment for the first crop, after he has harvested the second crop. At the end of the year, the premiums for the two crops will be adjusted according to percentage indemnity received for the crop. **This ARPA provision makes a sound risk management tool risky even to the best producers as it weakens their financial safety net.**

This limitation on coverage will discourage many producers, as they will not know until the end of the crop year what their crop insurance coverage will be, or the cost of their premium. In addition, the producers' lenders will be disturbed; they will not have a clear picture of what their security interest will be when providing the producer with operating loans, as they also will not know if the crops will be fully insured. This will cause cash flow problems for producers as they try to obtain operating loans for the entire crop year, when only 135 percent of two crops can be insured. Producers who have a loss on their first crop will likely find it difficult to plant the second crop, without funds

from harvesting the first crop, a reduced indemnity payment and uncertainty if the lender will back a second crop with out full insurance.

Furthermore, this provision will be a nightmare to administer – I'm not just talking about explaining it to the producer, but also the difficulty it is going to cause for the insurance companies and agents, as we will have to track and book the fluctuating premiums. It will create an enormous accounting complexity for companies and agents as we try to properly classify the premiums. I anticipate there will be additional costs to service this provision, as the producer determines after the second crop which crop will receive the full indemnity.

I recognize the reason behind this provision in the ARPA legislation was curtail abuse of the program when three or four crops were insured. However, this provision will harm all producers who double crop. I strongly encourage the Committee to modify this provision with legislation that would provide 100 percent coverage for two crops planted in one calendar year. This would be an equitable solution, as it would provide the producer with some financial certainty regarding his crop insurance coverage while limiting the coverage to two crops.

Conclusion

Crop insurance is a very successful program delivered by private industry. It is a very important risk management tool for farmers, but in order to provide them with financial certainty – the industry needs to be provided some level of financial stability to maintain service to all areas of the country. Just as important as financial strength, we need a strong RMA - an agency that will provide clear directives to assist with delivery of the program and will utilize its authority to enforce the rules against those who abuse the program.

Thank you again for your invitation, I hope my perspective has been informative and I will be happy to respond to your questions.